

**Supporting Statement for
30 CFR Part 206, Subpart C, Federal Oil
(OMB Control Number 1010-0136)
(Expiration Date: February 28, 2003)**

A. Justification

1. What circumstances make this collection of information necessary?

The Secretary of the U.S. Department of the Interior (DOI) is responsible for collecting royalties from lessees who produce minerals from leased Federal and Indian lands. The Secretary is required by various laws to manage mineral resources production on Federal and Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. The Minerals Management Service (MMS) performs the royalty management functions for the Secretary.

Section 101(a) of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires that the Secretary “establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and collect and account for such amounts in a timely manner” (Attachment 1). In order to accomplish these tasks, MMS developed valuation regulations for Federal leases at 30 CFR Part 206, Subpart C (Attachment 2). These regulations were published as a final rule in the *Federal Register* on March 15, 2000 (65 FR 14022). Market value is a basic principle underlying royalty valuation. Consequently, these regulations include methods to capture the true market value of crude oil produced from Federal leases, both onshore and offshore.

When a company or an individual enters into a lease to explore, develop, produce, and dispose of minerals from Federal or Indian lands, that company or individual agrees to pay the lessor a share (royalty) of the value received from production from the leased lands. The lease creates a business relationship between the lessor and the lessee. The lessee is required to report various kinds of information to the lessor relative to the disposition of the leased minerals. Such information is similar to data reported to private and public mineral interest owners and is generally available within the records of the lessee or others involved in developing, transporting, processing, purchasing, or selling of such minerals. The information collected includes data necessary to assure that the royalties are paid appropriately. The valuation regulations at 30 CFR Part 206, Subpart C, require companies to collect and/or submit information used to value their Federal oil.

2. How, by whom, and for what purpose will the information be used?

MMS uses the information collected to ensure that proper royalty is paid on oil produced from Federal onshore and offshore leases. Please refer to the chart at the end of Section B for all reporting requirements and associated burden hours covered in this ICR.

Valuation of Oil Not Sold at Arm's Length (30 CFR 206.103(a), (b), (c), and (e))

When oil is not sold under an arm's-length contract, royalty valuation is based on the geographic location of the lease. The reporting requirements for each of three regions are as follows:

1. California and Alaska—The lessee must determine value by calculating the average of the daily mean Alaska North Slope spot prices published in any MMS-approved publication during trading month most current with the production month. The lessee may adjust the value for applicable location and quality differentials and transportation costs.

2. Rocky Mountain Region (Utah, Colorado, Wyoming, Montana, North Dakota, and South Dakota)—The lessee must determine value based on the first applicable benchmark from the following:

a. The highest bid under an MMS-approved tendering program in which the lessee:

(1) Offers and sells at least 30 percent of its production from both Federal and non-Federal leases in the area, and

(2) Receives at least three bids for the tendered volumes from bidders who do not have their own tendering programs that cover some or all of the same area.

b. The volume-weighted average of the lessee's and its affiliate's arm's-length contract prices for the purchase or sale of oil from the field or area. The total volume purchased or sold under those contracts would have to exceed 50 percent of the lessee's and its affiliate's production from both Federal and non-Federal leases in the same field or area.

c. The average of the daily spot prices for West Texas Intermediate at Cushing, Oklahoma, published in an MMS-approved publication, for the light sweet crude oil contract during the trading month most current with the production month. The lessee would have to adjust the value for applicable location and quality differentials and could adjust it for transportation costs (see below).

d. If the lessee can demonstrate that the first three benchmarks result in an unreasonable value, MMS's Director may establish an alternative valuation method.

3. For the Rest of the Country (other than California, Alaska, and six-State Rocky Mountain Region)—The lessee must determine value by calculating the average of the daily mean spot prices published in an MMS-approved publication:

a. For the market center nearest the lessee's lease for crude oil similar in quality to that of lessee's oil production, and

b. During the trading month most current with the production month.

Under certain circumstances at § 206.103(e), a lessee may apply to MMS to establish a value representing the market price at his/her refiner instead of valuing the production under items 1-3 above.

Value Determinations (30 CFR 206.107(a))

A lessee may request a value determination from MMS regarding any Federal lease oil production using the requirements in § 206.107.

Allowances under Arm's-Length Transportation Contracts (30 CFR 206.110(b), (c), and (e))

If a lessee incurs transportation costs under an arm's-length contract, the lessee may claim a transportation allowance for the reasonable, actual costs incurred under that contract. This section includes the following reporting requirements for special situations:

- a. If the contract includes more than one liquid product, the lessee may propose a cost allocation method based on the value rather than the volume of the product.
- b. If the contract contains both gaseous and liquid products and the costs attributable to each product cannot be determined, the lessee must propose a cost allocation method to MMS.
- c. A lessee must obtain MMS approval before claiming a transportation factor in excess of 50 percent of the base price of the product.

Allowances under Non-Arm's-Length Transportation Contracts (30 CFR 206.111(g), (k), and (l))

If a lessee incurs transportation costs under a non-arm's-length contract, the lessee may claim a transportation allowance for the reasonable, actual costs calculated under § 206.111. This section includes the following reporting requirements for special situations:

- a. When computing depreciation, the lessee must elect to use either a straight-line method based on the life of the equipment or on the life of the reserves that the transportation system services, or on a unit-of-production method. After making the election, the lessee may not change the method without approval from MMS.
- b. When more than one liquid product is transported under the contract, the lessee may propose an allocation method on the basis of the value rather than the volume of the product.
- c. If the contract contains both gaseous and liquid products and the costs attributable to each product cannot be determined, the lessee must propose a cost allocation method to MMS.

Adjustments/Allowances Applicable to Index Prices (30 CFR 206.112 (b) and (f))

When a lessee uses index pricing to calculate the value of production, the lessee would have to adjust the index price for location and quality differentials and could adjust it for certain transportation costs. This section contains the following reporting requirements for special situations:

a. For non-arm's-length exchange agreements, the lessee must request approval from MMS for any location/quality adjustment.

b. If a lessee cannot determine the location/quality adjustment using the provisions in this section, the lessee must request approval from MMS for any location/quality adjustment.

3. Does the collection involve the use of information technology, does it reduce the burden, and to what extent?

Our Government Paperwork Elimination Act Plan indicates we are evaluating this transaction for electronic submission. Currently, about 25 percent of respondents submit requests via FAX or electronic mail. However, the use of more sophisticated electronic technology may not be applicable because of the detailed, lessee-specific, and intermittent nature of the information requested.

4. Is the information duplicated by any other Federal agency, and can similar information be used or modified for this collection?

The information in this collection is unique and specific to properly valuing oil from Federal leases for royalty purposes. There is no other source of this information available, nor is there any other government agency currently collecting similar information for other purposes that could serve our needs.

5. What is the agency doing to minimize the burden on small businesses or other small entities?

These regulations were developed to ensure that the information requested was the minimum necessary to carry out our mission and placed the least possible burden on respondents. There are no special reporting provisions for small organizations. However, if a small business is affected by these reporting requirements, it would likely have less information to report than a larger company. MMS provides periodic training and toll-free telephone assistance to assist all respondents in complying with these requirements.

6. What are the consequences to the Federal program or policy activity if the information is not collected or is collected less frequently; and are there any technical or legal obstacles to reducing the burden?

The requested information provides a critical link to establishing the proper value of oil from

Federal lands. A crucial piece of the valuation equation relies on adjusting the value at a given market center by the proper location and quality differential. If the information is not collected, it may result in a loss of royalties for both Federal and State governments.

7. Are there any special circumstances that require exceptions to 5 CFR 1320.5(d)(2) requiring respondents to: (i) report more often than quarterly, (ii) prepare written responses in fewer than 30 days after receipt, (iii) submit more than an original and two copies of any document, or (iv) retain records for more than 3 years?

This collection of information is consistent with the provisions at 5 CFR 1320.5(d)(2) except for (i) and (iv) as follows:

- In some cases, companies would report value by calculating the daily mean spot price for the oil most similar in quality and location to theirs and adjust the value for applicable location and quality differentials, and for transportation costs. These calculations would be performed monthly to coincide with their royalty payment (see OMB Control Number 1010-0140); and
- In accordance with 30 U.S.C. 1724(f), Federal oil and gas records must be maintained for 7 years from the date the obligation becomes due.

There are no special circumstances with respect to 1320.5(d)(2)(v) through (viii), as the collection is not a statistical survey and does not use statistical data classifications; nor does it include a pledge of confidentiality not supported by statute or regulation or require proprietary, trade secret, or other confidential information not protected by agency procedures.

8. What efforts did the agency make to consult with the public and a representative sample of respondents?

As required in 5 CFR 1320.8(d), MMS published a 60-day review and comment notice in the Federal Register on October 6, 2002 (67 FR 62985) (Attachment 3). We received no comments in response to this notice.

9. Will payments or gifts be provided to respondents?

There will be no payment or gifts to the respondents.

10. What assurance of confidentiality is provided to respondents?

Commercial or financial information submitted to DOI relative to minerals removed from Federal and Indian leases may be proprietary. Trade secrets and proprietary information are protected in accordance with standards established by FOGRMA (30 U.S.C. 1733), as amended; the Freedom of Information Act (5 U.S.C. 552(b)(4)); and Department regulations (43 CFR 2).

11. Does the information collected include any questions of a sensitive nature?

None of the information requested is considered sensitive.

12. What is the estimated reporting and recordkeeping “hour” burden?

The annual reporting burden is 12,431 hours. We expect approximately 69 responses from 45 Federal lessees to submit the required information. The burden estimates include the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Using an average cost of \$50 per hour, the total cost to respondents is \$621,550. Refer to the chart at the end of Section B for a breakdown of the burden.

13. What is the estimated reporting and recordkeeping “non-hour” cost burden of the collection of this information, excluding any costs identified in Items 12 and 14?

We have identified no reporting or recordkeeping "non-hour" cost burdens for this collection of information.

14. What is the estimated annualized cost to the Federal Government?

The total annualized cost to the Federal Government is approximately \$621,550 based on a per hour cost of \$50 and 12,431 burden hours.

We estimate MMS will require:

- 4,231 hours to calculate value of oil not sold at arm's-length.
 - 2,892 hours (13 requests x 222.5 hours each)
Category 1--lessees are companies with over 30 million barrels of annual production (this included 13 Federal lessees from our impact analysis).
 - 464 hours (4 requests x 116 hours each)
Category 2--lessees are companies with annual domestic production between 10 and 30 million barrels (this included 4 Federal lessees from our impact analysis).
 - 875 hours (28 requests x 31.25 hours each)
Category 3--lessees are companies with less than 10 million barrels of annual domestic production (this included 28 Federal lessees from our impact analysis).
- 800 hours (2 requests x 400 hours each) to approve tendering programs under §206.103(b)(1);
- 800 hours (2 requests x 400 hours each) to approve alternative valuation methods under §206.103(b)(5);
- 330 hours (1 requests x 330 hours) to approve market values at refineries under §206.103(e);
- 2,640 hours (8 requests x 330 hours each) to prepare value determinations under §206.107(a);
- 660 hours (2 requests x 330 hours each) to approve cost allocation methods when lessees transport more than one liquid product under one contract under §206.110(b) and §206.111(k);
- 660 hours (2 requests x 330 hours each) to approve cost allocation methods when lessees transport gas and liquid products under one contract under §206.110(c) and §206.111(l);
- 330 hours (1 request x 330 hours) to approve change of depreciation methods under §206.111(g);
- 330 hours (1 request x 330 hours) to approve each transportation factor in excess of 50 percent of the base price of the product under §206.110(e);
- 330 hours (1 request x 330 hours) to approve location/quality adjustments under non-arm's-length exchange agreements under §206.112(b); and

- 1,320 hours (4 requests x 330 hours each) to approve location/quality adjustments when information is not otherwise available to lessees under §206.112(f).

15. Is the agency requesting any program changes or adjustments reported in Items 13 and 14 of Form OMB 83-I?

The currently approved OMB inventory is 17,711.5 annual burden hours. We are decreasing the inventory by 5,280.5 hours to 12,431 hours. This adjustment in burden hours reflects a more accurate estimate based on actual historical response data.

16. Are there plans for tabulation and publication of the results of the information collection?

The data collected will not be tabulated and published for statistical use.

17. Is the agency seeking approval to not display the expiration date?

No. We will display the expiration date of OMB's approval.

18. Is the agency requesting exceptions to the certification statement in Item 19 of Form OMB 83-I?

To the extent the topics apply to this collection of information, we are not requesting exceptions to the ACertification for Paperwork Reduction Act Submissions.®

B. Collections of Information Employing Statistical Methods

This section is not applicable. We will not employ statistical methods in this information collection.

30 CFR Part 206 Subpart C	Reporting and Recordkeeping Requirements	Burden Hours Per Response	Annual Number of Responses	Annual Burden Hours
206.103 (a), (b), (c), and (e)	Calculate value of oil not sold at arm's-length.	Category 1 = 222.50 ¹ Category 2 = 116.00 ² Category 3 = 31.25 ³	13 4 28	2,892 464 875
	Obtain MMS approval for tendering program.	400	2	800
	Obtain MMS approval for alternative valuation methodology	400	2	800
	Obtain MMS approval to use value determined at refinery.	330	1	330
206.107(a)	Request a value determination from MMS	330	8	2,640
206.109(c)(2)	Request to exceed regulatory limit—Form MMS-4393	Burden covered under OMB Control Number 1010-0095		
206.110(b), (c), and (e)	Propose transportation cost allocation method to MMS when transporting more than one liquid product under an arm's-length contract.	330	1	330
	Propose transportation cost allocation method to MMS when transporting gaseous and liquid products under an arm's-length contract.	330	1	330
	You must obtain MMS approval before claiming a transportation factor in excess of 50 percent of the base price of the product.	330	1	330
206.110(c)(1) and 206.111(l)(2)	Amend your Form MMS-2014 if MMS rejects your cost allocation.	Burden covered under OMB Control Number 1010-0140.		

¹ Category 1 lessees are companies with over 30 million barrels of annual production (this included 13 Federal lessees from our impact analysis).

² Category 2 lessees are companies with annual domestic production between 10 and 30 million barrels (this included 4 Federal lessees from our impact analysis).

³ Category 3 lessees are companies with less than 10 million barrels of annual domestic production (this included 28 Federal lessees from our impact analysis).

30 CFR Part 206 Subpart C	Reporting and Recordkeeping Requirements	Burden Hours Per Response	Annual Number of Responses	Annual Burden Hours
206.111(g), (k), and (l)	Propose change of depreciation method for non-arm's-length transportation allowances to MMS.	330	1	330
	Propose transportation cost allocation method to MMS when transporting more than one liquid product under a non-arm's-length contract.	330	1	330
	Propose transportation cost allocation method to MMS when transporting gaseous and liquid product under a non-arm's-length contract.	330	1	330
206.112(b) and (f)	Request MMS approval for location/quality adjustment under non-arm's-length exchange agreements.	330	1	330
	Request MMS for location/quality adjustment when information is not available.	330	4	1,320
206.114 and 115(a)	Report a separate entry for transportation allowances—Form MMS-2014.	Burden covered under OMB Control Number 1010-0140.		
TOTAL			69	12,431